

RECORDATION NO. 24277 FILED

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McALLEN NATIONAL BANK



SURFACE TRANSPORTATION BOARD

December 2, 2002

Mr. Vernon Williams, Secretary  
Surface Transportation Board  
1925 K Street NW, Suite 700  
Washington, D.C. 20423

RECEIVED  
JAN 8 2003  
MAIL  
MANAGEMENT  
STB

Re: Texas Railcar Leasing Company, Inc.

Dear Mr. Williams:

I have enclosed an original and one certified copy of the document described below, to be recorded, pursuant to Section 11303, Title 49 of the U.S. Code.

The document described is the Security Agreement, being the primary document, dated November 21, 2002. A description of the equipment covered by the document is as follows:

1. Twenty (20) modified top hopper railcars identified as follows:

TRLX	TRLX	TRLX	TRLX
78005	78007	78009	78010
78012	78019	78026	78040
78047	78048	78053	78062
78064	78070	78072	78073
78082	78115	80016	80118

2. Debtor's right, title and interest in and to Car Leasing Agreement No. 01/010061 (including Rider No. 002), dated November 6, 2002 between *Texas Railcar Leasing Company, Inc.* and *Applied Industrial Materials Corporation*.

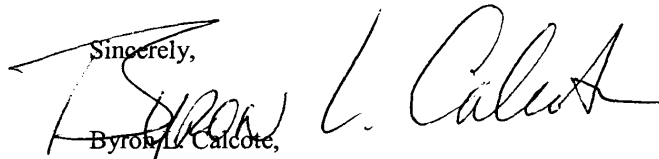
A fee of \$30.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to Byron Calcote, Senior Vice President, McAllen National Bank, 1801 S. McColl Road, McAllen, TX 78502.

Mr. Vernon Williams  
Correspondence  
Page Two

A short summary of the document to appear in the index is as follows:

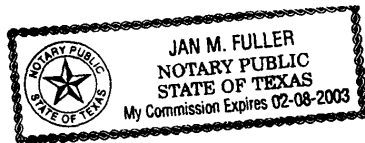
A Security Agreement by *Texas Railcar Leasing Company, Inc.*, P.O. Box 1330, McAllen, Texas, dated 11/21/02, covering twenty (20) 3,850 cubic feet, modified open top hopper railcars and Debtor's rights, title and interest in Car Leasing Agreement No. 01/020061, with Rider No. 0002, dated November 6, 2002, between *Texas Railcar Leasing Company, Inc.* and *Applied Industrial Materials Corporation*.


Sincerely,

  
Byron L. Calcote,  
Senior Vice President

/jmf  
Enclosures

This instrument was acknowledged before me on the 2 day of <sup>December</sup>~~November~~, 2002, by Byron L. Calcote, Senior Vice President of McAllen National Bank, McAllen, Texas on behalf of said corporation.



  
Notary Public in and for the State of Texas

DATE OF AGREEMENT  
11/21/2002**SECURITY AGREEMENT**

DEBTOR'S NAME(S)	SECURED PARTY'S NAME AND ADDRESS
TEXAS RAILCAR LEASING COMPANY, INC., A TEXAS CORPORATION	MCALLEN NATIONAL BANK Main Bank P.O. BOX 5555 MCALLEN, TX 78503
DEBTOR'S ADDRESS	
P.O. BOX 1330 MCALLEN, TX 78505-1330	

I. **GRANT OF SECURITY INTEREST.** For value received, the undersigned (referred to as "Debtor" whether one or more) grants to Secured Party named above a security interest in the Collateral described below to secure the payment of the "Indebtedness" (as defined below) and performance of all Debtor's obligations and agreements in this Agreement or other documents evidencing the Indebtedness. For purposes of this Agreement, any term used in the Uniform Commercial Code, as adopted and revised from time to time in the State of Texas in the Texas Business and Commerce Code ("UCC"), and not defined in this Agreement has the meaning given to the term in the UCC. Debtor's location (if other than the address reflected above) is in the state of TEXAS.

II. **DESCRIPTION OF COLLATERAL.** The "Collateral" shall include:

1. All inventory of whatever kind or nature, wherever located, now owned or hereafter acquired, and all returns, repossessions, exchanges, substitutions, replacements, attachments, parts, accessories, and accessions thereto and thereof and all proceeds thereof (whether in the form of cash, instruments, chattel paper, general intangibles, accounts or otherwise); including, but not limited to TWENTY (20) 4,460 cubic feet covered top hopper railcars identified as follows:

TRLX	TRLX	TRLX	TRLX	TRLX
78005	78053	78019	78073	78012
78007	78062	78026	78080	78072
78009	78064	78040	78115	78048
78010	78070	78047	80116	80118

2. Debtor's rights, title and interest in and to Car Leasing Agreement No. 01/010061 (including Rider No. 0002) between Texas Railcar Leasing Company, Inc. and Applied Industrial Materials Corporation, dated November 6, 2002

This term "Collateral" also includes to the extent not listed above as original collateral:

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(1) After-Acquired Property. After-acquired property; provided, however, the security interest will not attach to (a) consumer goods, or (b) fixtures when given as to the Debtor's personal property, unless the Debtor acquires rights in them within 10 days after the Secured Party gives value; or (b) a commercial tort claim.

(2) Proceeds. Proceeds, products, additions, substitutions and accessions of the Collateral.

(3) Deposits. Unless prohibited by law, any property (excluding Individual Retirement Accounts and other qualified retirement accounts), tangible or intangible, in possession of Secured Party at any time during the term of this Agreement, or any indebtedness due from Secured Party to Debtor and any deposit or credit balances due from Secured Party to Debtor, and Secured Party may at any time while the whole or any part of the Indebtedness remains unpaid, whether before or after maturity thereof, be appropriated, held or applied toward payment of the Indebtedness or any obligation of Debtor to Secured Party.

SURFACE TRANSPORTATION BOARD

III. **SECURED INDEBTEDNESS.** The security interest granted under this Agreement secures the following (referred to as the "Indebtedness"): (1) the performance of all of the agreements, obligations, covenants and warranties of Debtor as set forth in this Agreement or any other agreement between Debtor and Secured Party; (2) all liabilities of Debtor to Secured Party of every kind and description, including (a) all promissory notes given from Debtor to Secured Party, (b) all future advances from Secured Party to Debtor, whether in the form of a loan for a similar or different purpose than any other loan to Debtor, (c) Debtor's overdrafts, whether business or personal, (d) direct or indirect liabilities, (e) liabilities due or to become due and whether absolute or contingent, and (f) liabilities now existing or hereafter arising and however evidenced; (3) all extensions, renewals and deferrals of liabilities of Debtor to Secured Party for any term or terms, to which the undersigned hereby consents; (4) all interest and other finance charges due or to become due on the liabilities of Debtor to Secured Party; (5) All expenditures by Secured Party involving the performance or enforcement of Debtor's obligations, agreements, covenants and warranties under this Agreement or any other agreement between Debtor and Secured Party; and (6) All costs, attorneys' fees and other expenditures of Secured Party in the collection and enforcement of any obligation or liability of Debtor to Secured Party and in the collection and enforcement, sale or other liquidation of any of the Collateral.

IV. **GENERAL PROVISIONS.**

1. **WAIVERS.** No act, delay or omission, including Secured Party's written express waiver of a remedy after any default under this Agreement, shall constitute a waiver of any of Secured Party's rights and remedies not expressly waived in writing under this Agreement or any other agreement between the parties. All of Secured Party's rights and remedies are cumulative and may be exercised jointly or concurrently. The waiver or exercise of any one or more rights or remedies will not be a waiver or a bar to the exercise of any other rights or remedies upon any subsequent default. No waiver, change, modification or discharge of any of Secured Party's rights or remedies or Debtor's duties as specified or allowed by this Agreement will be effective unless in writing and signed by a duly authorized officer of Secured Party. Acceptance of any partial or late payment shall not constitute a waiver of any requirement of this Agreement or impose any additional notification duties upon Secured Party. Debtor and all other signers, including guarantors, waive presentment, notice of dishonor and protest, notice of default, notice of intention to accelerate and notice of acceleration and consent to any and all extensions of time for any term or terms regarding payment due, partial payments, or renewals before or after maturity. Debtor and all other signers, including guarantors, further consent to substitution, impairment, release or nonperfection with regard to the Collateral, and the addition or release of or agreement not to sue any party or guarantor.

2. **AGREEMENT BINDING ON ASSIGNS.** This Agreement inures to the benefit of Secured Party's successors and assigns, and is binding upon Debtor's heirs, executors, administrators, representatives, successors and permitted assigns (and all persons who become bound as a debtor to this Security Agreement), but no person taking from or representing Debtor has any right to advances under any instrument or document secured by this Agreement.

3. **CHANGES IN TERMS.** Secured Party reserves the right to change any of the terms of this Agreement in accordance with applicable law and the provisions of this Agreement.

4. **TERM OF AGREEMENT.** This Agreement, and the security interest created by this Agreement, will remain in force until all of the Indebtedness is paid in full, unless the security interest created by this Agreement is earlier released by Secured Party in writing.

5. **RIGHTS OF SECURED PARTY ASSIGNABLE.** Secured Party, at any time and at its option, may pledge, transfer or assign its rights under this Agreement in whole or in part, and any transferee or assignee shall have all Secured Party's rights or the parts of them so pledged, transferred or assigned. Debtor's rights under this Agreement or in the Collateral may not be assigned without Secured Party's prior written consent.

6. **JOINT AND SEVERAL RESPONSIBILITY OF DEBTOR AND SURETIES.** The responsibilities of Debtor and any co-debtor, guarantor, surety or accommodation party under this Agreement are joint and several, and the references to Debtor in this Agreement shall be deemed to refer to each such person, including any person who pledges Collateral even if such pledgor is not otherwise liable under any promissory note, guaranty or other instrument secured by this Agreement.

7. **SEPARABILITY OF PROVISIONS.** If any provision of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or unenforceable provision had never existed.

8. **GOVERNING LAW.** This Agreement shall be construed and enforced in accordance with the laws of the State of Texas, except to the extent that the UCC provides for application of the law where the Debtor or the collateral is located (if other than Texas) as the case may be.

9. **ENTIRE AGREEMENT.** This Agreement, together with any mortgage of real estate which may be Collateral, constitutes the entire agreement between the parties with respect to the subjects addressed herein. This Agreement may be amended or modified only by a writing signed by Secured Party specifying that it is a modification, amendment or addition to this Agreement.

V. **EVENTS OF DEFAULT.** Debtor shall be in default under this Agreement upon the happening of any one or more of the following events or conditions, called "Events of Default" in this Agreement:

1. If any warranty, covenant, agreement, representation, financial information or statement made or furnished to Secured Party by Debtor, any guarantor or surety, or otherwise on Debtor's behalf to induce Secured Party to enter into this Agreement, or in conjunction with it, is violated or proves to have been false in any material respect when made or furnished.

2. If any payment required in this Agreement or under any other agreement or obligation of Debtor to Secured Party or to others is not made when due or in accordance with the terms of the applicable contract.

3. If Debtor defaults in the performance of any covenant, obligation, warranty, or provision contained in this Agreement or any other agreement, mortgage or obligation of Debtor to Secured Party or to others, including without limitation Debtor's failure to insure the Collateral or unlawful use of the Collateral.

4. If any event or condition exists or occurs which results in acceleration of the maturity of any obligation of Debtor to Secured Party or to others under any note, mortgage, indenture, agreement, or undertaking.

5. If anyone makes any levy against or seizes, garnishes or attaches any of the Collateral; if Debtor consensually encumbers any of the Collateral; or if Debtor sells, leases, or otherwise disposes of any of the Collateral without Secured Party's prior written consent as required by this Agreement or any mortgage executed in connection with this Agreement.

6. If the Collateral is lost, stolen, substantially damaged or destroyed.

7. If, in Secured Party's judgment, the Collateral becomes unsatisfactory or insufficient in character or value, and upon request Debtor fails to provide additional Collateral as required by Secured Party.

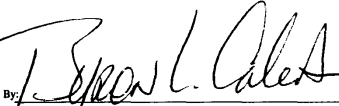
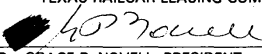
8. If at any time Secured Party, in its sole discretion, believes the prospect of payment or performance of any duty, covenant, warranty or obligation secured by this Agreement is impaired.

9. If Debtor or any guarantor or surety dies, dissolves, terminates existence, or becomes insolvent; if a receiver is appointed over any part of Debtor's property or any part of the Collateral; if Debtor makes an assignment for the benefit of creditors; or if any proceeding is commenced under any bankruptcy or insolvency law by or against Debtor or any guarantor or surety for Debtor.

10. If the Collateral is removed from the location specified in this Agreement or in a separate notice to Secured Party without Secured Party's prior written consent, except for temporary periods in the normal and customary use of the Collateral.

11. Secured Party shall receive at any time following the Closing a filing office report indicating that Secured Party's security interest is not prior to all other security interests or other interests reflected in the report.

VI. **ADDITIONAL PROVISIONS.** The undersigned specifically agree to all of the "Additional Provisions" on the reverse side of this Agreement.

SECURED PARTY'S SIGNATURE	DEBTORS' SIGNATURE(S)
MCALLEN NATIONAL BANK Main Bank  By:  BYRON CALCOTE, Senior Vice President	TEXAS RAILCAR LEASING COMPANY, INC., A TEXAS CORPORATION  By: GRACE P. NOVELL, PRESIDENT

ADDITIONAL PROVISIONS  
COVENANTS AND AGREES

REPRESENTATIONS, WARRANTIES AND COVENANTS

1. **FINANCIAL INFORMATION.** All applications, balance sheets, earnings statements, and other financial information and representations which have been, or may later be, furnished to Secured Party to induce it to enter into or continue a financial transaction with Debtor fairly represent Debtor's financial condition as of the date and for the period shown in such documents. All information furnished to Secured Party at any time and in any form is, or shall be at the time furnished, true and accurate in all material respects and not misleading in any material respect. Debtor will provide to Secured Party annually, or more frequently if Secured Party so elects, such financial information about Debtor's affairs as Secured Party may reasonably require. Debtor's financial condition has not changed materially since the effective date of the last furnished financial information except as Debtor has reported to Secured Party in writing.

2. **INFORMATION ON COLLATERAL.** Debtor will furnish to Secured Party information adequate to identify all Collateral, in a form and at such times as Secured Party may request. Debtor also will deliver to Secured Party, upon request, true copies of purchase orders, shipping, delivery and warehouse receipts, and invoices evidencing and describing the Collateral, as well as true copies of all contracts to furnish goods or services to Debtor's customers. Debtor will execute such documents as Secured Party may require to evidence, perfect and record Secured Party's security interest granted by this Agreement and enable Secured Party to receive proceeds and distributions from or interest in the Collateral.

3. **OWNERSHIP FREE OF ENCUMBRANCES.** Except for the security interest granted by this Agreement or by a mortgage executed in connection with this Agreement, and except for any security interest previously disclosed in writing to Secured Party, Debtor now owns, or will use the proceeds of the advances secured by this Agreement to become the owner of the Collateral (or has rights in or the power to transfer the Collateral) free from any prior liens, security interests, mortgages, or encumbrances. Debtor warrants title to and will defend the Collateral against all claims and demands of persons claiming any interest in the Collateral adverse to Secured Party. Debtor will not permit any liens or security interests other than Secured Party's security interest to attach to any of the Collateral, and will not permit the Collateral to be levied upon, garnished or attached under any legal process, or permit any other thing to be done that may impair the value of the Collateral or the security interest granted to Secured Party by Debtor.

4. **FINANCING STATEMENTS.** No Financing Statement or Lien Entry Form covering the Collateral is on file in any public office except in connection with this Agreement. Debtor agrees to join with Secured Party in executing one or more Lien Entry Forms, Financing Statements or Effective Financing Statements in form satisfactory to Secured Party and provide such other documents as may be required from time to time in order to evidence, perfect or continue perfection, or record the security interest granted in this Agreement. Debtor hereby authorizes and grants to Secured Party a power of attorney to execute such documents on Debtor's behalf. A carbon, photographic or other reproduction of this Agreement or of any Financing Statement is sufficient as a Financing Statement.

5. **LOCATION OF COLLATERAL, RECORDS, INVENTORY AND EQUIPMENT.** Debtor will give Secured Party written notice of each location of the Collateral and Debtor's records pertaining to the Collateral are kept. Debtor shall not be required to give such notice if all Collateral and all of Debtor's records pertaining to the Collateral are kept at Debtor's address shown on the face of this Agreement, and if such address is Debtor's chief executive office. Debtor will notify Secured Party in writing of any proposed change in any of the offices or locations of the Collateral, prior to the proposed effective date of such change. Debtor will not remove or permit removal of any of the Collateral from the location specified in this Agreement without Secured Party's prior written consent, except as otherwise provided in this Agreement, and such removal shall be considered an Event of Default under this Agreement.

6. **SALE, LEASE OR DISPOSITION OF COLLATERAL PROHIBITED.** Debtor shall not sell, mortgage, transfer, exchange, lease, hypothecate, assign, license, grant any other security interest or otherwise dispose of all or any part of the Collateral or Debtor's rights in it without Secured Party's written consent. Secured Party's consent may be conditioned upon any requirements (including, but not limited to, the application of proceeds to obligations secured by this Agreement which Secured Party deems to be for the protection of its security interest). Secured Party's consent shall not be deemed to be effective until such requirements and conditions have been fulfilled. Neither Debtor's grant of a security interest in the Collateral nor any requirement that Debtor furnish a Statement concerning farm products, if applicable, shall be construed to mean that Secured Party consents to sale or any other disposition of the Collateral.

7. **MAINTENANCE AND INSPECTION.** Debtor, in its own right, shall: (a) keep the Collateral in good condition and repair so that its value and operating efficiency shall be maintained and preserved; (b) not permit the Collateral to be misused, abused, wasted or allowed to deteriorate, except for the ordinary wear and tear of its intended primary use; (c) promptly protect the Collateral from theft, damage, loss, destruction, and fire and not permit its illegal use or its use in a manner not permitted or covered by the insurance on the Collateral required by this Agreement. Debtor shall comply promptly with all requirements of any governmental agency affecting the Collateral and, upon Secured Party's request, deliver to Secured Party evidence of such compliance. Debtor shall at all times keep accurate and complete books and records of transactions and information relating to the Collateral. Debtor grants to Secured Party the right and privilege of making such inspections of the Collateral and Debtor's books and records relating to the Collateral as may be necessary, and auditing or causing an audit or verification of such books and records, at any time and from time to time, including contacting Debtor's customers or suppliers in connection with such audit or verification. Debtor agrees to assist Secured Party in facilitating such audits, verifications and inspections.

8. **TAXES AND FEES.** Debtor shall pay promptly any and all taxes, assessments and license fees with respect to the Collateral or use of the Collateral which the same shall become due. If the Collateral is on or affixed to realty owned by Debtor, Debtor shall make all such payments with respect to the realty when they are due.

9. **AFFIXING TO REAL OR PERSONAL PROPERTY PROHIBITED.** Unless Debtor has also granted Secured Party a first priority mortgage in the Collateral, Debtor shall not permit any of the Collateral which is personal property to become an accession or affixed to other personal property or become attached or affixed to real property without first obtaining Secured Party's written consent. Secured Party's consent may be conditioned upon any requirements (including, but not limited to, the subrogation of other interest owners in and to such other personal or real property to Secured Party's rights and interest in the Collateral) which Secured Party deems to be for the protection of its security interest. Secured Party's consent will not be deemed to be effective unless and until such requirements and conditions have been fulfilled.

10. **INSURANCE ON THE COLLATERAL.** While any of the Indebtedness remains outstanding and throughout the full term of this Agreement, Debtor shall maintain and pay for insurance on all Collateral, wherever located, including but not limited to storage facilities or in transit in vehicles, including goods evidenced by documents. Such insurance shall be purchased through any person of Debtor's choice, with companies acceptable to Secured Party, against such casualties, hazards, public liabilities and other risks, and in such amounts as prudent and adequate to protect Secured Party's interest. Debtor shall require all insurance policies, except for vendor's single interest insurance, or certified copies of such policies evidencing the insurance coverage shall be furnished to Secured Party within 10 days of the date of this Agreement. All policies of insurance shall provide for at least 10 days' prior written notice to Secured Party of cancellation. Secured Party may act as Debtor's attorney-in-fact, with power of attorney to procure insurance; make, adjust, and settle claims under or cancel such insurance; and endorse Debtor's name on any drafts or checks drawn by insurers of the Collateral. Provided, however, Secured Party is under no obligation to make, adjust, or settle claims under or cancel such insurance. Debtor agrees to assign to Secured Party any returned or unearned premiums which may be due upon cancellation of any such policies for any reason whatsoever, and directs insurers to pay Secured Party any amounts so due. Any balance of insurance proceeds remaining after payment in full of all amounts secured by this Agreement shall be paid to Debtor.

11. **EXPENDITURES BY SECURED PARTY.** At its option, and after any written notice to Debtor required by law, Secured Party may, but is not obligated to, discharge taxes, liens, security interests or other encumbrances on the Collateral, or pay for: (a) the repair of any damage to the Collateral; (b) anything necessary to maintain and preserve the Collateral; and (c) insurance on the Collateral. Debtor shall be liable and agrees to reimburse Secured Party promptly for all such expenditures, and for all costs, attorney fees and other disbursements made by Secured Party in connection with this paragraph. In addition, Debtor shall be liable and agree to reimburse Secured Party promptly for all costs, attorney fees and other disbursements made by Secured Party as allowed by law or provided for in this Agreement in enforcing or collecting any note, warranty, or liability of Debtor to Secured Party, or in realizing upon, enforcing or collecting any account, promissory note, chattel paper, instrument, document or other collateral of Debtor's in which Secured Party has a security interest. Until Debtor reimburses Secured Party for the amounts provided in this paragraph, such amounts shall be considered part of Debtor's liability to Secured Party.

which is secured by any security agreement executed by Debtor in Secured Party's favor, including this Agreement, unless such security would cause Secured Party to be in violation of a right of rescission or a restriction on security interests, in which case, to that extent, such amounts will not be secured. The amount of Debtor's liability under this paragraph shall be subject to accrual of interest at a rate not exceeding the annual percentage rate ("APR") or the prime rate, whichever is greater, provided in the instrument secured by this Agreement. Any notice required by this paragraph shall be sufficient if given at Debtor's address set forth in this Agreement by (a) mailing the notice at least 10 days before, or (b) delivering the notice at least 5 days before the commencement of the performance of the duties specified in the notice.

12. **POSSESSION.** Debtor shall have possession of the Collateral, except where expressly otherwise provided in this Agreement or where Secured Party chooses to perfect its security interest by possession in addition to the filing of a financing statement. Where Collateral is in the possession of a third party, Debtor will join with Secured Party in notifying the third party of Secured Party's security interest and obtaining an acknowledgment from the third party that it is holding the Collateral for the benefit of Secured Party.

13. **CONTROL.** Debtor will cooperate with Secured Party in obtaining control with respect to Collateral consisting of: deposit accounts; investment property; letter-of-credit rights; electronic chattel paper;

14. **CHattel PAPER.** If the Collateral includes chattel paper, Debtor will not create any chattel paper without placing a legend on the chattel paper acceptable to Secured Party indicating that Secured Party has a security interest in the chattel paper.

15. **PURCHASE MONEY SECURITY INTEREST.** To the extent Debtor uses the Indebtedness to purchase Collateral, Debtor's payment of the Indebtedness shall apply on a "first-in-first-out" basis so that the portion of the Indebtedness used to purchase a particular item of Collateral shall be paid in the chronological order the Debtor purchased the Collateral.

16. **DEBTOR'S NAME AND LOCATION.** Debtor's exact legal name is as set forth on the reverse side of this Agreement. If Debtor is an individual, Debtor's principal residence is at Debtor's address as set forth herein. If Debtor is an entity other than an individual, Debtor's location (i.e., place of business, chief executive office or state of organization, as the case may be) is in the state reflected for Debtor's address or as otherwise set forth on the reverse side of this Agreement. Until the Indebtedness is paid in full, Debtor agrees that it will not change its location (for example, its state of incorporation) or its legal name without providing Secured Party 30 days' prior written notice.

17. **DEBTOR'S COOPERATION.** In addition to Debtor's other obligations and agreements in this Agreement, and Secured Party's remedies, Debtor agrees and promises to do all acts which Secured Party deems reasonable or necessary to preserve or protect the Collateral, including, without limitation, the following:

(a) **FARM PRODUCTS.** If the Collateral includes "farm products," Debtor agrees to execute and deliver to Secured Party an "Effective Financing Statement" containing all information required by law. Debtor also agrees to furnish to the Secured Party a list of the names and addresses of the buyers, securities merchants, and others who sell the farm products and agrees to keep such list current. Debtor agrees to execute and deliver to Secured Party any instrument persons on such list and others of Secured Party's security interest in the farm products. If any of the farm products are sold to or through any person or entity not on the list, Debtor may be subject to a fine unless Secured Party is notified in writing at least 7 days prior to such sale, or unless all sale proceeds are remitted to Secured Party within 10 days after such sale. Debtor agrees that before receiving an instrument in payment for farm products other than livestock, Debtor shall execute a certificate containing, in addition to all information required by law, the name of Secured Party and a statement that Secured Party holds a security interest in the farm products listed on the certificate.

(b) **LIVESTOCK.** In addition to the provisions of this Agreement relating to farm products, if the Collateral includes livestock, to the extent Secured Party deems it necessary to preserve the Collateral, and upon Secured Party's demand, with an appropriate credit for its value, Debtor will make available to Secured Party all feed, both hay and grain, and all equipment owned by Debtor and used in the feeding and handling of the livestock. Debtor will cooperate with Secured Party and use Debtor's best efforts to allow Secured Party use of all Debtor's right, title and interest in or to all water privileges, all other equipment used in the feeding and handling of the livestock, and all contracts and leases covering lands for pasture and grazing.

(c) **CHattel PAPER, ACCOUNTS, INSTRUMENTS, DOCUMENTS, SECURITIES AND NOTES.** If the Collateral includes documents evidenced by chattel paper, accounts, instruments, documents, shares of stock or other securities, promissory notes, trade acceptances or other instruments in writing, or if Debtor receives stock rights, rights to subscribe, dividends of any kind or character (including liquidating dividends), new securities, cash, interest, or any other property by reason of ownership of the Collateral, the Collateral shall include all such property and, unless Secured Party provides otherwise, Debtor immediately shall deliver and transfer the same to Secured Party, appropriately assigned or endorsed to Secured Party's order. Secured Party will hold such proceeds and property in the same manner as the Collateral originally pledged under this Agreement. Secured Party, at its option, may permit such property to be received and retained by Debtor, but Secured Party may at any time terminate such permission. Debtor agrees to execute all necessary stock powers and other conveyances to pledge to Secured Party any property described in this paragraph. Debtor also agrees to execute and deliver such financing statements and other documents required by Secured Party to protect or perfect the assignments, pledges, transfers and grant of the security interest granted in this Agreement. Regardless of the form of any assignment, endorsements or other conveyance executed by Debtor, Debtor waives presentment, demand, notice of dishonor, protest and notice of non-payment and all other notices with respect to such conveyances. If the Collateral includes accounts or other receivables and the right to payment is enhanced by a letter of credit, Debtor agrees to deliver the letter of credit immediately to Secured Party, and not to make demand under it or assign it by way of security or otherwise without Secured Party's prior express consent in writing, which consent Secured Party is under no obligation to give.

(d) **CASH AND OTHER REMITTANCES.** Upon demand of and as specified by Secured Party, when Debtor receives any cash, or other remittances, in payment of accounts or other Collateral, or as proceeds of inventory or other Collateral, Debtor shall apply the same directly on Debtor's liability to Secured Party, or deposit the same in a special account maintained with Secured Party and from which Secured Party has the power of withdrawal. Debtor will promptly notify Secured Party of such applications or deposits, identifying in writing the source of same and the Collateral which has been converted into same. The funds in any such special account shall be held by Secured Party as security for all Debtor's liabilities to Secured Party. Such proceeds shall be deposited and held by Secured Party, except for Debtor's endorsement where necessary to permit collection of items, which endorsement Debtor agrees to make, and which Secured Party is hereby granted a power of attorney to make on Debtor's behalf if Debtor fails or refuses to make such endorsement. Pending such deposits, Debtor agrees that all such checks, drafts, cash or other remittances will not be commingled with any of Debtor's funds or property, but will be held separate and apart and in trust for Secured Party until deposit of same is made in the special account. Secured Party will, at intervals to be determined by Secured Party, apply the whole or any part of any monies which are on deposit with Secured Party, whether owned by Debtor or any other party liable under this Agreement and any resulting proceeds, with respect to all proceeds covered by this Agreement, for or against Debtor's other liabilities to Secured Party secured by this Agreement, at Secured Party's sole option, unless so applying those deposits would contravene any written agreement between Debtor and Secured Party or any government regulation. Any portion of such funds on deposit which Secured Party elects not to apply will be paid to Debtor by Secured Party.

(e) **PROCEEDS.** Whenever the sale, exchange, or other disposition of inventory or other Collateral gives rise to an account, chattel paper, instrument, or general intangible for the payment of money ("proceeds") for purposes of this paragraph, Debtor, as assigned by Secured Party, shall notify Secured Party promptly of the disposition of said inventory or other Collateral and any resulting proceeds. With respect to all proceeds covered by this Agreement, Debtor represents that (i) no set-off or counterclaim exists or shall be permitted to exist (ii) no agreements have been or shall be made for any material modification, deduction or discount, and (iii) no partial payments have been or shall be made except as revealed to Secured Party in writing. All proceeds where the right to payment has not yet been earned by performance shall be evidenced by a binding written contract between Debtor and third parties, and copies of such contracts shall be provided to Secured Party. Secured Party shall have the right to notify account debtors or other third parties of the assignment to make payments directly to Secured Party and Secured Party may take control of all proceeds, which right Secured Party may exercise at any time. Until such time as Secured Party elects to exercise such right, Debtor is authorized as Secured Party's agent to collect and enforce such proceeds. The costs of such collection and enforcement, including attorneys' fees and other expenses, shall be borne by Debtor, whether incurred by Secured Party or Debtor.

(f) **FEDERAL ASSIGNMENT OF CLAIMS ACT.** If the Collateral includes accounts or other receivables with a face value over \$1,000, and which arise out of a contract with the United States of America or any of its departments, agencies, subdivisions or instrumentalities, Debtor shall notify Secured Party promptly in writing of that fact. Debtor shall execute any instruments and take any other action Secured Party requires or requests to perfect Secured Party's security interest in such accounts under the provisions of the Federal Assignment of Claims Act.

REMEDIES

Upon the occurrence of an Event of Default, and at any later time, Secured Party may, except as otherwise provided by law, at its option and without notice or demand to Debtor, exercise any and all rights and remedies provided by the UCC, as well as all other rights and remedies Secured Party possesses, including but not limited to the right to:

1. Declare all liabilities secured by this Agreement immediately due and payable, and/or proceed to enforce payment and performance of all such liabilities, provided that any prepayment in full of the unpaid balance of such liabilities, Debtor shall be entitled to a rebate of any unearned portion of any finance or other charge in accordance with law.

2. Require Debtor to assemble the Collateral or evidence of the Collateral and make it available to Secured Party at a place Secured Party designates which is reasonably convenient to both parties. Debtor shall be responsible for any expenses and damages if Debtor wrongfully damages the Collateral or if, after default and demand in accordance with law and this Agreement, Debtor wrongfully fails to make the Collateral available to Secured Party. All such expenses and damages are secured by Secured Party's security interest in the Collateral granted by this Agreement.

3. Repossess the Collateral, and for this purpose Secured Party is granted authority to enter into and upon any premises on which any part of the Collateral may be situated and remove it. Debtor waives any claim in connection with or arising from an entry peacefully made in connection with a repossession. Debtor authorizes Secured Party or its independent contractors to take any property located in or removed from the premises on which the Collateral is located. If Debtor has not reclaimed such property within 10 days after notice of its taking and location is sent to Debtor, such property may be sold and the proceeds applied to expenses and other amounts due from Debtor to Secured Party. Any balance of such proceeds remaining after payment in full of all amounts secured by this Agreement shall be paid to Debtor.

4. Possess all books and records evidencing or pertaining to the Collateral and any personal property in or associated with the Collateral, and for this purpose Secured Party is granted authority to enter into and upon any premises at which any part of such books and records may be situated and remove them. Any such property not necessary to enforcement of Secured Party's rights shall be returned to Debtor on demand, or otherwise upon completion of use.

SECURITY AGREEMENT

DATE OF AGREEMENT  
11/21/2002

DEBTOR'S NAME(S)	SECURED PARTY'S NAME AND ADDRESS
TEXAS RAILCAR LEASING COMPANY, INC., A TEXAS CORPORATION	MCALLEN NATIONAL BANK Main Bank P.O. BOX 5555 MCALLEN, TX 78503
DEBTOR'S ADDRESS	
P.O. BOX 1330 MCALLEN, TX 78505-1330	

I. **GRANT OF SECURITY INTEREST.** For value received, the undersigned (referred to as "Debtor" whether one or more) grants to Secured Party named above a security interest in the Collateral described below to secure the payment of the "Indebtedness" (as defined below) and performance of all Debtor's obligations and agreements in this Agreement or other documents evidencing the Indebtedness. For purposes of this Agreement, any term used in the Uniform Commercial Code, as adopted and revised from time to time in the State of Texas in the Texas Business and Commerce Code ("UCC"), and not defined in this Agreement has the meaning given to the term in the UCC. Debtor's location (if other than the address reflected above) is in the state of TEXAS.

II. **DESCRIPTION OF COLLATERAL.** The "Collateral" shall include:

1. All inventory of whatever kind or nature, wherever located, now owned or hereafter acquired, and all returns, repossessions, exchanges, substitutions, replacements, attachments, parts, accessories, and accessions thereto and thereof and all proceeds thereof (whether in the form of cash, instruments, chattel paper, general intangibles, accounts or otherwise); including, but not limited to TWENTY (20) 4,460 cubic feet covered top hopper railcars identified as follows:

TRLX	TRLX	TRLX	TRLX	TRLX
78005	78053	78019	78073	78012
78007	78062	78026	78080	78072
78009	78064	78040	78115	78048
78010	78070	78047	80116	80118

2. Debtor's rights, title and interest in and to Car Leasing Agreement No. 01/010061 (including Rider No. 0002) between Texas Railcar Leasing Company, Inc. and Applied Industrial Materials Corporation, dated November 6, 2002

This term "Collateral" also includes to the extent not listed above as original collateral:

- (1) **After-Acquired Property.** After-acquired property; provided, however, the security interest will not attach to (a) consumer goods, other than an accession when given as additional security, unless the Debtor acquires rights in them within 10 days after the Secured Party gives value; or (b) a commercial tort claim.
- (2) **Proceeds.** Proceeds, products, additions, substitutions and accessions of the Collateral.
- (3) **Deposits.** Unless prohibited by law, any property (excluding Individual Retirement Accounts and other qualified retirement accounts), tangible or intangible, in possession of Secured Party at any time during the term of this Agreement, or any indebtedness due from Secured Party to Debtor and any deposit or credit balances due from Secured Party to Debtor, and Secured Party may at any time while the whole or any part of the Indebtedness remains unpaid, whether before or after maturity thereof, be appropriated, held or applied toward payment of the Indebtedness or any obligation of Debtor to Secured Party.

III. **SECURED INDEBTEDNESS.** The security interest granted under this Agreement secures the following (referred to as the "Indebtedness"): (1) the performance of all of the agreements, obligations, covenants and warranties of Debtor as set forth in this Agreement or any other agreement between Debtor and Secured Party; (2) all liabilities of Debtor to Secured Party of every kind and description, including (a) all promissory notes given from Debtor to Secured Party, (b) all future advances from Secured Party to Debtor, whether in the form of a loan for a similar or different purpose than any other loan to Debtor, (c) Debtor's overdrafts, whether business or personal, (d) direct or indirect liabilities, (e) liabilities due to or become due and whether absolute or contingent, and (f) liabilities now existing or hereafter arising and however evidenced; (3) all extensions, renewals and deferrals of liabilities of Debtor to Secured Party for any term or terms, to which the undersigned hereby consents; (4) all interest and other finance charges due to or become due on the liabilities of Debtor to Secured Party; (5) All expenditures by Secured Party involving the performance or enforcement of Debtor's obligations, agreements, covenants and warranties under this Agreement or any other agreement between Debtor and Secured Party; and (6) All costs, attorneys' fees and other expenditures of Secured Party in the collection and enforcement of any obligation or liability of Debtor to Secured Party and in the collection and enforcement, sale or other liquidation of any of the Collateral.

IV. **GENERAL PROVISIONS.**

1. **WAIVERS.** No act, delay or omission, including Secured Party's written express waiver of a remedy after any default under this Agreement, shall constitute a waiver of any of Secured Party's rights and remedies not expressly waived in writing under this Agreement or any other agreement between the parties. All of Secured Party's rights and remedies are cumulative and may be exercised singly or concurrently. The waiver or exercise of any one or more rights or remedies will not be a waiver or a bar to the exercise of any other rights or remedies upon any subsequent default. No waiver, change, modification or discharge of any of Secured Party's rights or remedies or Debtor's duties as specified or allowed by this Agreement will be effective unless in writing and signed by a duly authorized officer of Secured Party. Acceptance of any partial or late payment shall not constitute a waiver of any requirement of this Agreement or impose any additional notification duties upon Secured Party. Debtor and all other signers, including guarantors, waive presentment, notice of dishonor and protest, notice of default, notice of intention to accelerate and notice of acceleration and consent to any and all extensions of time for any term or terms regarding payment due, partial payment due, or renewal before or after maturity. Debtor and all other signers, including guarantors, further consent to substitution, impairment, release or nonperformance with regard to the Collateral, and the addition or release of or agreement not to sue any party or guarantor.
2. **AGREEMENT BINDING ON ASSIGNS.** This Agreement inures to the benefit of Secured Party's successors and assigns, and is binding upon Debtor's heirs, executors, administrators, representatives, successors and permitted assigns (and all persons who become bound as a debtor to this Security Agreement), but no person taking from or representing Debtor has any right to advance under any instrument or document secured by this Agreement.
3. **CHANGES IN TERMS.** Secured Party reserves the right to change any of the terms of this Agreement in accordance with applicable law and the provisions of this Agreement.
4. **TERM OF AGREEMENT.** This Agreement, and the security interest created by this Agreement, will remain in force until all of the Indebtedness is paid in full, unless the security interest created by this Agreement is earlier released by Secured Party in writing.
5. **RIGHTS OF SECURED PARTY ASSIGNABLE.** Secured Party, at any time and at its option, may pledge, transfer or assign its rights under this Agreement in whole or in part, and any transferee or assignee shall have all Secured Party's rights or the parts of them so pledged, transferred or assigned. Debtor's rights under this Agreement or in the Collateral may not be assigned without Secured Party's prior written consent.

6. **JOINT AND SEVERAL RESPONSIBILITY OF DEBTOR AND SURETIES.** The responsibilities of Debtor and any co-debtor, guarantor, surety or accommodation party under this Agreement are joint and several, and the references to Debtor in this Agreement shall be deemed to refer to each such person, including any person who pledges Collateral even if such pledgor is not otherwise liable under any promissory note, guaranty or other instrument secured by this Agreement.

7. **SEPARABILITY OF PROVISIONS.** If any provision of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or unenforceable provision had never existed.

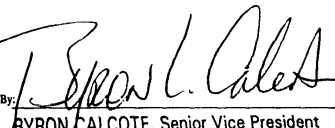
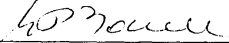
8. **GOVERNING LAW.** This Agreement shall be construed and enforced in accordance with the laws of the State of Texas, except to the extent that the UCC provides for application of the law where the Debtor or the collateral is located (if other than Texas) as the case may be.

9. **ENTIRE AGREEMENT.** This Agreement, together with any mortgage of real estate which may be Collateral, constitutes the entire agreement between the parties with respect to the subject addressed herein. This Agreement may be amended or modified only by a writing signed by Secured Party specifying that it is a modification, amendment or addition to this Agreement.

V. **EVENTS OF DEFAULT.** Debtor shall be in default under this Agreement upon the happening of any one or more of the following events or conditions, called "Events of Default" in this Agreement:

1. If any warranty, covenant, agreement, representation, financial information or statement made or furnished to Secured Party by Debtor, any guarantor or surety, or otherwise on Debtor's behalf to induce Secured Party to enter into this Agreement, or in conjunction with it, is violated or proves to have been false in any material respect when made or furnished.
2. If any payment required in this Agreement or under any other agreement or obligation of Debtor to Secured Party or to others is not made when due or in accordance with the terms of the applicable contract.
3. If Debtor defaults in the performance of any covenant, obligation, warranty, or provision contained in this Agreement or any other agreement, mortgage or obligation of Debtor to Secured Party or to others, including without limitation Debtor's failure to insure the Collateral or unlawful use of the Collateral.
4. If any event or condition exists or occurs which results in acceleration of the maturity of any obligation of Debtor to Secured Party or to others under any note, mortgage, indenture, agreement, or undertaking.
5. If anyone makes any levy against or seizes, garnishes or attaches any of the Collateral; if Debtor consensually encumbers any of the Collateral; or if Debtor sells, leases, or otherwise disposes of any of the Collateral without Secured Party's prior written consent as required by this Agreement or any mortgage executed in connection with this Agreement.
6. If the Collateral is lost, stolen, substantially damaged or destroyed.
7. If, in Secured Party's judgment, the Collateral becomes unsatisfactory or insufficient in character or value, and upon request Debtor fails to provide additional Collateral as required by Secured Party.
8. If at any time Secured Party, in its sole discretion, believes the prospect of payment or performance of any duty, covenant, warranty or obligation secured by this Agreement is impaired.
9. If Debtor or any guarantor or surety dies, dissolves, terminates existence, or becomes insolvent; if a receiver is appointed over any part of Debtor's property or any part of the Collateral; if Debtor makes an assignment for the benefit of creditors; or if any proceeding is commenced under any bankruptcy or insolvency law by or against Debtor or any guarantor or surety for Debtor.
10. If the Collateral is removed from the location specified in this Agreement or in a separate notice to Secured Party without Secured Party's prior written consent, except for temporary periods in the normal and customary use of the Collateral.
11. Secured Party shall receive at any time following the Closing a filing office report indicating that Secured Party's security interest is not prior to all other security interests or other interests reflected in the report.

VI. **ADDITIONAL PROVISIONS.** The undersigned specifically agree to all of the "Additional Provisions" on the reverse side of this Agreement.

SECURED PARTY'S SIGNATURE	DEBTORS' SIGNATURE(S)
MCALLEN NATIONAL BANK Main Bank	TEXAS RAILCAR LEASING COMPANY, INC., A TEXAS CORPORATION
	
By: <b>BYRON CALCOTE, Senior Vice President</b>	By: <b>GRACE P. NOVELL, PRESIDENT</b>

REPRESENTATIONS, WARRANTIES AND COVENANTS

1. **FINANCIAL INFORMATION.** All applications, balance sheets, earnings statements, and other financial information and representations which have been, or may later be, furnished to Secured Party to induce it to enter into or continue a financial transaction with Debtor shall represent Debtor's financial condition as of the date and for the period shown in such documents. All information furnished to Secured Party at any time and in any form, is, or shall be at the time furnished, true and accurate in all material respects and sufficiently complete to give Secured Party full knowledge of the subject matter. Debtor will provide to Secured Party annually, or more frequently if Secured Party so elects, such financial information as Secured Party may reasonably request. Debtor's financial condition has not changed materially since the effective date of the last furnished financial information except as Debtor has reported to Secured Party in writing.

2. **INFORMATION ON COLLATERAL.** Debtor will furnish to Secured Party information adequate to identify all Collateral, in a form and at such times as Secured Party may request. Debtor also will deliver to Secured Party, upon request, true copies of purchase orders, shipping, delivery and warehouse receipts, and invoices evidencing and describing the Collateral, as well as true copies of all contracts to furnish goods or services to Debtor's customers. Debtor will execute such documents as Secured Party may require to evidence, perfect and record Secured Party's security interest granted by this Agreement and enable Secured Party to receive proceeds and distributions from or interest in the Collateral.

3. **OWNERSHIP FREE OF ENCUMBRANCES.** Except for the security interest granted by this Agreement or by a mortgage executed in connection with this Agreement, and except for any security interest previously disclosed in writing to Secured Party, Debtor now owns, or will use the proceeds of the advances secured by this Agreement to become the owner of the Collateral (or has rights in or the power to transfer the Collateral) free from any prior liens, security interests or encumbrances. Debtor warrants title to and will defend the Collateral against all claims and demands of persons claiming any interest in the Collateral adverse to Secured Party. Debtor will not permit any liens or security interests other than Secured Party's security interest to attach to any of the Collateral, and will not permit the Collateral to be levied upon, garnished or attached under any legal process, or permit any other thing to be done that may impair the value of the Collateral or the security interest granted to Secured Party by Debtor.

4. **FINANCING STATEMENTS.** No Financing Statement or Lien Entry Form covering the Collateral is on file in any public office with Secured Party. Debtor agrees to file with Secured Party, in connection with this Agreement, one or more Lien Entry Forms, Financing Statements, or Effective Financing Statements in form satisfactory to Secured Party and provide such other documents as may be required from time to time in order to evidence, perfect or continue perfection of the security interest granted to Secured Party by Debtor. Debtor hereby authorizes and grants to Secured Party a power of attorney to execute such documents on Debtor's behalf. A carbon, photographic or other reproduction of this Agreement or of any Financing Statement is sufficient as a Financing Statement.

5. **LOCATION OF COLLATERAL, RECORDS, INVENTORY AND EQUIPMENT.** Debtor will give Secured Party written notice of each office or location at which the Collateral and Debtor's records pertaining to the Collateral are kept. Debtor shall not be required to give such notice if all Collateral and all of Debtor's records pertaining to the Collateral are and shall be kept at Debtor's address shown on the face of this Agreement, and if such address is Debtor's chief executive office. Debtor will notify Secured Party in writing of any proposed change in any of the offices or locations of the Collateral, prior to the proposed effective date of such change. Debtor will not remove or permit removal of any of the Collateral from the location specified in this Agreement without Secured Party's prior written consent, except as otherwise provided in this Agreement, and such removal shall be considered an Event of Default under this Agreement.

6. **SALE, LEASE OR DISPOSITION OF COLLATERAL PROHIBITED.** Debtor shall not sell, mortgage, transfer, exchange, lease, hypothecate, assign, license, grant any other security interest or otherwise dispose of all or any part of the Collateral or Debtor's rights in it without first obtaining Secured Party's written consent. Secured Party's consent may be conditioned upon any requirements (including, but not limited to, the application of proceeds to obligations secured by this Agreement) which Secured Party deems to be for the protection of its security interest. Secured Party's consent will not be effective unless and until such requirements and conditions have been fulfilled. Neither Debtor's grant of a security interest in the proceeds of the Collateral nor any requirement that Debtor furnish a Statement concerning farm products, if applicable, shall be construed to mean that Secured Party consents to sale or any other disposition of the Collateral.

7. **MAINTENANCE AND INSPECTION.** Debtor, at its own expense, shall (a) keep the Collateral in good condition and repair so that its value and operating efficiency shall be maintained and preserved; (b) not permit the Collateral to be misused, abused, deteriorated, or for any reason become damaged, lost, stolen, or otherwise disposed of without its prior written consent; (c) prudently protect the Collateral from the elements; and (d) use the Collateral lawfully and not permit its illegal use or its use in a manner not permitted or covered by the insurance on the Collateral required by this Agreement. Debtor shall comply promptly with all requirements of any governmental agency affecting the Collateral and, upon Secured Party's request, deliver to Secured Party evidence of such compliance. Debtor shall at all times keep accurate and complete books and records of transactions and information relating to the Collateral. Debtor grants to Secured Party the right and privilege of making such inspections of the Collateral and Debtor's books and records relating to it as Secured Party deems necessary and useful for the purpose of verifying such books and records, at any time and from time to time, including contacting Debtor's customers or suppliers in connection with such audit or verification. Debtor agrees to assist Secured Party in facilitating such audits, verifications and inspections.

8. **TAXES AND FEES.** Debtor shall pay promptly any and all taxes, assessments and license fees with respect to the Collateral or use of the Collateral when the same shall become due. If the Collateral is in or assigned to realty owned by Debtor, Debtor shall make all such payments with respect to the realty when they are due.

9. **AFFIXING TO REAL OR PERSONAL PROPERTY PROHIBITED.** Unless Debtor has also granted Secured Party a first priority mortgage in the Collateral, Debtor shall not permit any of the Collateral which is personal property to become an accession or affixed to or personal property or become attached or affixed to real property without first obtaining Secured Party's written consent. Secured Party's consent may be conditioned upon any requirements (including, but not limited to, the subrogation of other interest owners in and to such other personal or real property to Secured Party's rights and interest in the Collateral) which Secured Party deems to be for the protection of its security interest. Secured Party's consent will not be deemed to be effective until and until such requirements and conditions have been fulfilled.

10. **INSURANCE ON THE COLLATERAL.** While any of the Indebtedness remains outstanding and throughout the full term of this Agreement, Debtor shall maintain and pay for insurance on all Collateral, wherever located, including but not limited to storage facilities or in transit in vehicles, including goods evidenced by documents. Such insurance shall be purchased through any person of Debtor's choice, with companies acceptable to Secured Party, against theft, fire, public liabilities and other risks, and in such amounts as are prudent and adequate to protect Secured Party or as Secured Party shall require. All insurance policies, except for vendor's single interest insurance, or certified copies of such policies evidencing the insurance coverage shall be furnished to Secured Party within 10 days of the date of this Agreement. All policies of insurance shall provide for at least 10 days' prior written notice to Secured Party of cancellation. Secured Party may act as Debtor's attorney-in-fact, with power of attorney to procure insurance; make, adjust, and settle claims under or cancel such insurance; and endorse Debtor's name on or to the Collateral or checks drawn by insurers of the Collateral. Provided, however, Secured Party is under no obligation and has no duty to procure insurance, pay premiums, make claims or settle claims with respect to any insurance or to cancel any insurance required by this Agreement. Debtor assigns to Secured Party any returned or unearned premiums which may be due upon cancellation of any such policies for any reason whatsoever, and directs insurers to pay Secured Party any amounts so due. Any balance of insurance proceeds remaining after payment in full of all amounts secured by this Agreement shall be paid to Debtor.

11. **EXPENDITURES BY SECURED PARTY.** At its option, and after any written notice to Debtor required by law, Secured Party may, but not obligated to, discharge taxes, liens, security interests or other encumbrances on the Collateral, or pay for: (a) the repair of any damage to the Collateral; (b) anything necessary to maintain and preserve the Collateral; and (c) insurance on the Collateral. Debtor shall be liable and agree to reimburse Secured Party promptly for all such expenditures, and for all costs, attorney fees and other disbursements made by Secured Party in connection with this paragraph. In addition, Debtor shall be liable and agree to reimburse Secured Party promptly for all costs, attorney fees and other disbursements made by Secured Party as allowed by law or provided for in this Agreement in enforcing or collecting any note, warranty, or liability of Debtor to Secured Party, or in realizing upon, enforcing or collecting any account, promissory note, chattel paper, instrument, document or other collateral of Debtor in which Secured Party has a security interest. Until Debtor reimburses Secured Party for the amounts provided in this paragraph, such amounts shall be considered part of Debtor's liability to Secured Party.

REMEDIES

Upon the occurrence of an Event of Default, and at any later time, Secured Party may, except as otherwise provided by law, at its option demand any or demand to Debtor, exercise any and all rights and remedies provided by the UCC, as well as all other rights and remedies Secured Party possesses, including but not limited to the right to:

1. Declare all liabilities secured by this Agreement immediately due and payable, and/or proceed to enforce payment and performance of all such liabilities, provided that upon prepayment in full of the unpaid balance of such liabilities, Debtor shall be entitled to a rebate of any unearned portion of any finance or other charge in accordance with law.

2. Require Debtor to assemble the Collateral or evidence of the Collateral and make it available to Secured Party at a place Secured Party designates which is reasonably convenient to both parties. Debtor shall be responsible for any expenses and damages if Debtor wrongfully damages the Collateral or if, after default and demand in accordance with law and this Agreement, Debtor wrongfully fails to make the Collateral available to Secured Party. All such expenses and damages are secured by Secured Party's security interest in the Collateral granted by this Agreement.

3. Repossess the Collateral, and for this purpose Secured Party is granted authority to enter into and upon any premises on which any part of the Collateral may be situated and remove it. Debtor waives any claim in connection with or arising from an entry peacefully made in connection with a repossession. Debtor authorizes Secured Party or its independent contractors to take possession of and hold any property located in or temporarily attached to the Collateral. If Debtor has not reclaimed such property within 10 days after notice of its taking and location is sent to Debtor, such property may be sold and the proceeds applied to expenses and other amounts due from Debtor to Secured Party. Any balance of such proceeds remaining after payment in full of all amounts secured by this Agreement shall be paid to Debtor.

4. Possess all books and records evidencing or pertaining to the Collateral and any personal property in or associated with the Collateral, and for this purpose Secured Party is granted authority to enter into and upon any premises at which any part of such books and records may be situated and remove them. Any such property not necessary to enforcement of Secured Party's rights shall be returned to Debtor on demand, or otherwise upon completion of use.

which is secured by any security agreement executed by Debtor in Secured Party's favor, including this Agreement, unless such security would cause Secured Party to be in violation of a right of rescission or a restriction on security interests, in which case, to the extent, such amounts will not be secured. The amount of Debtor's liability under this Agreement shall be the amount of the Indebtedness as of the date of the last payment made by Debtor, plus the interest rate provided in the instrument secured by this Agreement. Any notice required in connection with this paragraph shall be sufficient if given at Debtor's address set forth in this Agreement by (a) mailing the notice at least 10 days before, or (b) delivering the notice at least 5 days before the commencement of the performance of the duties specified in the notice.

12. **POSSESSION.** Debtor shall have possession of the Collateral, except where expressly otherwise provided in this Agreement or where Secured Party chooses to perfect its security interest by possession in addition to the filing of a financing statement. Where Collateral is in the possession of a third party, Debtor will join with Secured Party in notifying the third party of Secured Party's security interest and obtaining an acknowledgment from the third party that it is holding the Collateral for the benefit of Secured Party.

13. **CONTROL.** Debtor will cooperate with Secured Party in obtaining control with respect to Collateral consisting of deposit accounts, instrument property, interest in credit rights, electronic chattel paper.

14. **CHattel PAPER.** If the Collateral includes chattel paper, Debtor will not create any chattel paper without placing a legend on the chattel paper acceptable to Secured Party indicating that Secured Party has a security interest in the chattel paper.

15. **PURCHASE MONEY SECURITY INTEREST.** To the extent Debtor uses the Indebtedness to purchase Collateral, Debtor's repayment of the Indebtedness shall apply on a "first-in-first-out" basis so that the portion of the Indebtedness used to purchase a particular item of Collateral shall be paid in the chronological order the Debtor purchased the Collateral.

16. **DEBTOR'S NAME AND LOCATION.** Debtor's exact legal name is as set forth on the reverse side of this Agreement. If Debtor is an individual, Debtor's principal residence is at Debtor's address as set forth herein. If Debtor is an entity other than an individual, Debtor's location (i.e., place of business, chief executive office or state of organization, as the case may be) is in the state reflected for Debtor's address or as otherwise set forth on the reverse side of this Agreement. Until the Indebtedness is paid in full, Debtor agrees that it will not change its location (for example, its state of incorporation) or its legal name without providing Secured Party 30 days' prior written notice.

17. **DEBTOR'S COOPERATION.** In addition to Debtor's other obligations and agreements in this Agreement, and Secured Party's remedies, Debtor agrees and promises to do all acts which Secured Party deems reasonable or necessary to preserve or protect the Collateral, including, without limitation, the following:

(a) **FARM PRODUCTS.** If the Collateral includes "farm products," Debtor agrees to execute and deliver to Secured Party an "Effective Financing Statement" containing all information required by law. Debtor also agrees to furnish to the Secured Party a list of the names and addresses of the buyers, commission merchants, and selling agents or through whom Debtor may sell the farm products and agrees to keep such list current. Secured Party may inform persons on such list and others of Secured Party's security interest in the farm products. If any of the farm products are sold to or through any person or entity not on the list, Debtor may be subject to a fine. If the Secured Party was notified in writing at least 7 days prior to such sale, or unless all sale proceeds are remitted to Secured Party within 10 days after such sale, Debtor agrees that before receiving an instrument payment for farm products other than livestock, Debtor shall execute a certificate containing, in addition to all information required by law, the name of Secured Party and a statement that Secured Party holds a security interest in the farm products listed on the certificate.

(b) **LIVESTOCK.** In addition to the provisions of this Agreement relating to farm products, if the Collateral includes livestock, to the extent Secured Party deems it necessary to preserve the Collateral and upon Secured Party's demand, with an appropriate credit for its value, Debtor will make available to Secured Party all feed, hay and grain, and all equipment owned by Debtor and used in the feeding and handling of the livestock. Debtor will cooperate with Secured Party to allow Secured Party use of all Debtor's right, title and interest in or to all water privileges, all other equipment used in the feeding and handling of the livestock, and all contracts and leases covering lands for pasture and grazing.

(c) **CHattel PAPER, ACCOUNTS, INSTRUMENTS, DOCUMENTS, SECURITIES AND NOTES.** If the Collateral becomes evidenced by chattel paper, accounts, instruments, documents, shares of stock or other securities, promissory notes, trade acceptances, or other instruments in writing, or if Debtor receives such rights, interests, or any other property by reason of ownership of the Collateral, the Collateral shall include all such property and, unless Secured Party provides otherwise, Debtor immediately shall deliver and pledge the same to Secured Party, appropriately assigned or endorsed to Secured Party's order. Secured Party will hold such proceeds and property in the same manner as the Collateral originally pledged under this Agreement. Secured Party, at its option, may permit such property to be received and retained by Debtor, but Secured Party may at any time terminate such permission. Debtor agrees to execute all necessary stock powers and other conveyances to pledge to Secured Party any property described in this paragraph. Debtor also agrees to execute and deliver such financing statements and other documents and instruments as may be required to perfect the assignment, pledge, transfer and grant of the security interest granted in this Agreement. Regardless of the form of any assignment, endorsement or other security executed by Debtor, Debtor waives presentment, demand, notice of dishonor, protest and notice of non-payment and all other notices with respect to such conveyances. If the Collateral includes accounts or receivables and the right to payment is enhanced by a letter of credit, Debtor agrees to deliver the letter of credit immediately to Secured Party, and not to make demand under it or assign it by way of security or otherwise without Secured Party's prior express consent in writing, which consent Secured Party is under no obligation to give.

(d) **CASH AND OTHER REMITTANCES.** Upon demand of and as specified by Secured Party, when Debtor receives any checks, cash, or other remittances, in payment of accounts or other Collateral, or proceeds of inventory or other Collateral, Debtor shall apply the same directly on Debtor's liability to Secured Party, or deposit the same in a special account maintained with Secured Party and from which Secured Party has the right of withdrawal at any time. If Secured Party so requires, Debtor will promptly notify Secured Party of such applications and deposits, identifying in writing the source of same and the Collateral which has been converted into cash or funds in any such special account shall be held by Secured Party as security for all Debtor's liabilities to Secured Party. Said proceeds shall be deposited in promptly the form received, except for Debtor's endorsement where necessary to permit collection of items, which endorsement Debtor agrees to make, and which Secured Party is hereby granted a power of attorney to make on Debtor's behalf if Debtor fails or refuses to make such endorsement. Debtor shall execute and deliver to Secured Party any checks, drafts, cash or other remittances will not be commingled with any of Debtor's funds or property, but will be held separate and apart and in trust for Secured Party until deposit of same is made in the special account. Secured Party will, at intervals to be determined by Secured Party, review the whole or any part of any monies which are on deposit with Secured Party, whether owned by Debtor or any other party, and if necessary, shall retain the principal or interest due on any loan made to Debtor by Secured Party, or against Debtor's other liabilities to Secured Party secured by this Agreement, at Secured Party's sole option, unless so applying those deposits would contravene any written agreement between Debtor and Secured Party or any government regulation. Any portion of such funds on deposit which Secured Party elects not to apply will be paid to Debtor by Secured Party.

(e) **PROCEEDS.** Whenever the sale, exchange, or other disposition of inventory or other Collateral gives rise to an account, chattel paper, instrument, or general intangible for the payment of money ("proceeds") for purposes of this paragraph, Debtor, as required by Secured Party, shall notify Secured Party promptly of the disposition of said inventory or other Collateral and of the resulting proceeds. With respect to all proceeds covered by this Agreement, Debtor represents that (i) no set-off or counterclaim exists or shall be permitted to exist (ii) no agreements have been or shall be made for any material modification, deduction or discount, and (iii) no partial payments have been or shall be made or received in writing. All proceeds payable by Debtor to third parties shall be paid to Secured Party. All proceeds not so paid shall be deemed to be received by Secured Party by a binding written contract between Debtor and third parties, and copies of such contracts shall be provided to Secured Party. Secured Party shall have the right to notify any account debtor or obligor of Debtor's obligation to make payments directly to Secured Party and Secured Party may take control of all proceeds, which right Secured Party may exercise at any time. Until such time as Secured Party elects to exercise such right, Debtor is authorized as Secured Party's agent to collect and enforce such proceeds. The costs of such collection and enforcement, including attorneys' fees and other expenses, shall be borne by Debtor, whether incurred by Secured Party or Debtor.

(f) **FEDERAL ASSIGNMENT OF CLAIMS ACT.** If the Collateral includes accounts or other receivables with a face value over \$1,000, and which arise out of a contract with the United States of America or any of its departments, agencies, subdivisions or instrumentalities, Debtor shall notify Secured Party promptly in writing of that fact. Debtor shall execute any instruments and take any other action Secured Party requires or requests to perfect Secured Party's security interest in such accounts under the provisions of the Federal Assignment of Claims Act.

REMEDIES

3. Transfer any of the Collateral or evidence of the Collateral into Secured Party's own name or that of a nominee, and receive the proceeds and hold the same as security for Debtor's liabilities to Secured Party or apply the proceeds on or against any such liability. Secured Party may notify account debtors and obligors to make payment directly to Secured Party, and may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, release or realize upon the Collateral, in Secured Party's own name or in Debtor's name, as Secured Party may determine.

6. Sell or otherwise dispose of the Collateral. Unless the Collateral in whole or part is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will give Debtor reasonable notice of its intention to sell or otherwise dispose of the Collateral in public sale, or of the time and place of any public sale, or of the time and place of any private sale or other disposition to be made. Such notice shall be adequate if given at Debtor's address set forth in this Agreement by mailing the notice at least 10 days before any sale or other disposition or action. Secured Party shall be entitled to, and Debtor shall be liable for, all expenditures of all reasonable costs, fees for retrieval, handling, storage, reproduction, repair and preparation costs for sale, selling costs and attorneys' fees. All such costs are secured by the security interest in the Collateral granted to Secured Party under this Agreement.

Debtor waives any right it may have to require Secured Party to pursue any third person for any of the Indebtedness. Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral, and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. Secured Party has no obligation to clean-up or otherwise prepare the Collateral for sale. Secured Party may sell the Collateral without giving any warranties as to the Collateral and may, in connection with the sale, make any use of the Collateral. Debtor authorizes Secured Party to use the Collateral commercially in any sale of the Collateral. If Secured Party sells any of the Collateral upon credit, Debtor will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the Indebtedness of the purchaser. In the event the purchaser does not pay for the Collateral, Secured Party may resell the Collateral and Debtor shall be credited with the proceeds of the sale.

7. Secured Party shall not be liable for failing to collect any account, enforce any contract right, or any other act or omission on the part of Secured Party, its officers, agents or employees, except as the same constitutes bad faith or failure to act in a commercially reasonable manner. Secured Party shall have acted in a commercially reasonable manner if it has used the Collateral in a manner that is commercially reasonable under the circumstances. Secured Party shall not be liable for any act or omission on the part of Secured Party, its officers, agents or employees, except as the same constitutes bad faith or failure to act in a commercially reasonable manner. Secured Party shall have acted in a commercially reasonable manner if it has used the Collateral in a manner that is commercially reasonable under the circumstances. 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